Report

of the

Examination of

Bloomington Farmers Mutual Insurance Company

Bloomington, Wisconsin

As of December 31, 2000

**TABLE OF CONTENTS**

# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 25, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2000, of the affairs and financial condition of

BLOOMINGTON FARMERS MUTUAL INSURANCE COMPANY
Bloomington, Wisconsin

and the following report thereon is respectfully submitted:

## I. INTRODUCTION

The last examination of this company was made in 1996 as of December 31, 1995. The current examination covered the intervening time period ending December 31, 2000, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on April 11, 1874, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Bloomington Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were three amendments to the articles of incorporation and no amendments to the bylaws.

The company amended its articles in 1996, adding the counties of Vernon, Sauk, Lafayette and Green to the counties it may do business in. The company had two amendments in 2000. The first added the counties of Monroe and La Crosse to the counties it may do business in and the second changed the notification of meetings from mail to notices in the major newspapers in every county it conducts business in.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Crawford, Grant, Green, Iowa, La Crosse, Lafayette, Monroe, Richland, Sauk and Vernon.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of three years with premiums payable on the advance premium basis. Policy fees charged policyholders are retained by the company.

Business of the company is acquired through eleven agents, five of whom are directors of the company. Agents are presently compensated for their services as follows:

| | Type of Policy | Compensation |
|---|---|---|
| $100 Deductible | Farmowners and Prepaid Farm | 12% |
| | Homeowners and Dwelling | 15 |
| | Commercial | 12 |
| $250 Deductible | Farmowners and Prepaid Farm | 14 |
| | Homeowners and Dwelling | 17 |
| | Commercial | 14 |
| $500 Deductible | Farmowners and Prepaid Farm | 16 |
| | Homeowners and Dwelling | 19 |
| | Commercial | 16 |
| $1000 Deductible | Farmowners and Prepaid Farm | 18 |
| | Homeowners and Dwelling | 21 |
| | Commercial | 18 |
| $2000 Deductible | Farmowners and Prepaid Farm | 20 |
| | Homeowners and Dwelling | 23 |
| | Commercial | 20 |

Director agents have authority to adjust losses up to $5,000 and non-agent directors have authority to adjust losses up to $2,500. Losses in excess of these amounts are adjusted with one other director present. Adjusters receive $10.00 per hour for each loss adjusted plus $.34 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

**Board of Directors**

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

| Name | Principal Occupation | Residence | Expiry |
|---|---|---|---|
| David Smith* | Farmer | Mt. Hope, WI | 2001 |
| Susan Mergen* | Office Manager of Company | Bloomington, WI | 2001 |
| James Hampton | Farmer | Glen Haven, WI | 2001 |
| James Leamy | Farmer | Bloomington, WI | 2002 |
| Charles Raisbeck | Farmer | Bloomington, WI | 2002 |
| William Nieses | Farmer | Bloomington, WI | 2002 |
| Oscar Peterson* | Retired | Woodman, WI | 2003 |
| Ronald Leeser* | Farmer | Lancaster, WI | 2003 |
| Loyle Wood* | Manager of Company | Cassville, WI | 2003 |

Directors who are also agents are identified with an asterisk.

Members of the board who are agents currently receive $50 for each meeting attended, board members who are not agents receive $100 for each meeting attended and both receive $.34 per mile for travel expenses.

**Officers**

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

| Name | Office | 2000 Salary |
|---|---|---|
| James Leamy | President | $ 3,416 |
| Charles Raisbeck | Vice-President | 1,062 |
| Loyle K. Wood | Secretary/Treasurer/Manager | 80,770 |

The Secretary/Treasurer/Manager salary consists of commissions of $48,402, director's fees of $1,042 and salary of $31,326.

**Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

**Adjusting Committee**
James Leamy, Chair
David Smith
Susan Mergen
James Hampton
Charles Raisbeck
William Nieses
Oscar Peterson
Ronald Leeser
Loyle K. Wood

The board meets once a month and does not appoint other committees.

## Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

| Year | Net Premiums Earned | Net Losses and LAE Incurred | Policies In Force | Net Income | Admitted Assets | Policyholders' Surplus |
|---|---|---|---|---|---|---|
| 1996 | $614,041 | $453,973 | 1,670 | ($ 38,564) | $1,662,582 | $1,026,931 |
| 1997 | 642,147 | 365,518 | 1,648 | 107,595 | 1,716,480 | 1,098,993 |
| 1998 | 636,298 | 624,026 | 1,633 | ( 146,138) | 1,752,054 | 1,006,866 |
| 1999 | 729,811 | 482,285 | 1,732 | 10,595 | 1,840,479 | 1,051,396 |
| 2000 | 709,101 | 692504 | 1,807 | ( 140,626) | 1,853,750 | 887,266 |

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

| Year | Gross Premiums Written | Net Premiums Written | Ending Surplus | Writings Ratios Gross | Writings Ratios Net |
|---|---|---|---|---|---|
| 1996 | $1090,040 | $735,041 | $1,026,931 | 106% | 72% |
| 1997 | 957,670 | 640,829 | 1,098,993 | 87 | 58 |
| 1998 | 1,013,044 | 646,309 | 1,006,866 | 101 | 64 |
| 1999 | 1,104,165 | 773,000 | 1,051,396 | 105 | 74 |
| 2000 | 1,183,042 | 746,132 | 827,266 | 143 | 90 |

For the same period, the company's operating ratios were as follows:

| Year | Net Losses and LAE Incurred | Other Underwriting Expenses Incurred | Net Earned Premiums | Loss Ratio | Expense Ratio | Composite Ratio |
|---|---|---|---|---|---|---|
| 1996 | $453,973 | $239,771 | $614,041 | 74% | 33% | 107% |
| 1997 | 365,518 | 229,667 | 642,147 | 57 | 36 | 93 |
| 1998 | 624,026 | 247,580 | 636,298 | 98 | 38 | 136 |
| 1999 | 482,285 | 308,001 | 729,811 | 66 | 40 | 106 |
| 2000 | 692,504 | 246,492 | 709,101 | 98 | 33 | 131 |

Surplus decreased from 1995 and is at $887,266. The loss ratio has ranged from 57% to 98%. The expense ratio has flucuated from 33% to 40%. The composite ratio for 2000 was 131% and there has only been one year in which the ratio was under 100%, 1997. The company had a bad loss year in 1998 as did many other town mutuals in Wisconsin. The company also had two catastrophic storms in 2000. The company has had four years with underwriting losses; net losses were incurred three out of the five years under examination.

## II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed that there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code. It was noted during the exam that an overlap of coverage existed between Class B and Class C coverage. It was determined that this overlap was appropriate since the company does not cede all of its risks in excess of $200,000 under Class B.

| | |
|---|---|
| Reinsurer: | Wisconsin Reinusrance Corporation |
| Effective date: | January 1, 2001 |
| Termination provisions: | As of any January 1 by either party giving at least 90 days' advance notice in writing to the other |

The coverages provided under this treaty are summarized as follows:

| | | |
|---|---|---|
| 1. | Type of contract: | Class A, Liability |
| | Lines reinsured: | Nonproperty |
| | Company's retention: | $1,500 per loss |
| | Coverage: | 100% of any loss, including loss adjustment expense in excess of $1,500 subject ot the following limits<br>a. $1,000,000 per occurrence, single limit, combined injury and property damage liability<br>b. $1,000,000 split limits, in any combination of bodily injury and property damage liability<br>c. $5,000 for medical payments, per person; $25,000 per accident |
| | Reinsurance premium: | 75% of net liability premiums |
| 2. | Type of contract: | Class B, First Surplus |
| | Lines reinsured: | Property |
| | Company's retention: | $200,000 |
| | Coverage: | When the net retention on a policy is $200,000 or more, the company may cede on a pro rata basis up to $800,000; When the net retention less than $200,000, the company may cede on a pro rata basis up to 50% of such risk |
| | Reinsurance premium: | Pro rata portion of premium |
| | Ceding commission: | 15.0% sliding scale<br>Minimum = 15%<br>Maximum = 35% |

| | | |
|---|---|---|
| 3. | Type of contract: | Class C-1, Excess of Loss |
| | Lines reinsured: | Property |
| | Company’s retention: | \$30,000 |
| | Coverage: | 100% of any loss, excluding LAE, in excess of retention up to \$70,000 |
| | Reinsurance premium: | Based on the sum of the prior four years’ losses plus current year’s losses divided by the total of net premium written for the corresponding five years times 100/80. Current Rate 9.51%<br>Minimum = 5%<br>Maximum = 23.8% |
| 4. | Type of contract: | Class C-2, Excess of Loss Second Layer |
| | Lines reinsured: | Property |
| | Company's retention: | \$100,000 |
| | Coverage: | 100% of any loss, excluding LAE, in excess of retention up to \$100,000 |
| | Reinsurance premium: | 1.2% of net premium written, subject to an annual deposit premium of \$10,800 |
| 5. | Type of contract: | Class C-3, Excess of Loss Third Layer |
| | Lines reinsured: | Property |
| | Company's retention: | 200,000 |
| | Coverage: | 100% of loss (excluding loss adjustment expenses) with a \$300,000 limitation |
| | Reinsurance premium: | 3% of net premium, subject to an annual deposit premium of \$27,000 |
| 6. | Type of contract: | Class D/E, Stop Loss |
| | Lines reinsured: | All business including nonproperty |
| | Company's retention: | 75% of net premium written and \$75,000 for 72-Hour Cat Coverage |
| | Coverage: | 100% excess of 75% of net premium written and \$250,000 excess of \$75,000 for 72 Hour Cat Coverage |
| | Reinsurance premium: | Sum of the prior eight years’ losses divided by the total net premium written for the corresponding eight years times 125%<br>Current rate is 10.85%<br>Minimum rate = 7%`<br>Maximum rate = 25% |

## III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2000. Adjustments made as a result of the examination are noted at the end of this section of this report in the area captioned "Reconciliation of Policyholders' Surplus."

Bloomington Farmers Mutual Insurance Company
**Statement of Assets and Liabilities**
**As of December 31, 2000**

| **Assets** | **Ledger** | **Nonledger** | **Not Admitted** | **Net Admitted** |
|---|---|---|---|---|
| Cash in Company's Office | $ 150 | $ | $ | $ 150 |
| Cash Deposited in Checking Account | 658 | | | 658 |
| Cash Deposited at Interest | 365,193 | | | 365,193 |
| Bonds (at Amortized Cost) | 612,671 | | | 612,671 |
| Stocks or Mutual Fund Investments (at Market) | 662,723 | | | 662,723 |
| Real Estate (Net of Accumulated Depreciation and Encumbrances) | 14,769 | | | 14,769 |
| Premiums and Agents' Balances In Course of Collection | 9,700 | | | 9,700 |
| Premiums and Agents' Balances and Installments Booked But Deferred and Not Yet Due | 168,800 | | | 168,800 |
| Investment Income Due or Accrued | | 17,610 | | 17,610 |
| Reinsurance Recoverable on Paid Losses and LAE | 1,476 | | | 1,476 |
| Other Assets Furniture & Fixtures | 3,318 | | 3,318 | 0 |
| TOTALS | $1,839,458 | $17,610 | $ 3,318 | $1,853,730 |

**Liabilities and Surplus**

| | |
|---|---|
| Net Unpaid Losses | $ 261,000 |
| Unpaid Loss Adjustment Expenses | 1,459 |
| Commissions Payable | 22,900 |
| Fire Department Dues Payable | 400 |
| Federal Income Taxes Payable | 8,627 |
| Net Unearned Premiums | 510,241 |
| Reinsurance Payable | 97,215 |
| Other Liabilities: | |
| Expense Related | |
| Accrued Property Taxes | 1,150 |
| Nonexpense Related | |
| Policy Buyout – Mark Freymiller | 38,192 |
| Premiums Received in Advance | 25,300 |
| TOTAL LIABILITIES | 966,484 |
| Policyholders' Surplus | 887,266 |
| TOTAL | $1,853,750 |

Bloomington Farmers Mutual Insurance Company

**Statement of Operations**

**For the Year 2000**

| | |
|---|---|
| Net Premiums and Assessments Earned | $ 709,101 |
| Deduct: | |
| Net Losses Incurred | 671,815 |
| Net Loss Adjustment Expenses Incurred | 20,689 |
| Other Underwriting Expenses Incurred | 246,492 |
| Total Losses and Expenses Incurred | 938,996 |
| Net Underwriting Gain (Loss) | (229,895) |
| Net Investment Income: | |
| Net Investment Income Earned | 70,308 |
| Net Realized Capital Gains | 36,211 |
| Total Investment Income | 106,519 |
| Net Investment and Other Income | 106,519 |
| Net Income (Loss) Before Policyholder Dividends and Before Federal Income Taxes | (123,376) |
| Net Income (Loss) Before Federal Income Taxes | (123,376) |
| Federal Income Taxes Incurred | 17,250 |
| Net Income (Loss) | $ (140,626) |

**Bloomington Farmers Mutual Insurance Company]**
**Reconciliation and Analysis of Surplus as Regards Policyholders**
**For the Five-Year Period Ending December 31, 2000**

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

| | | |
|---|---|---|
| Surplus as regards policyholders, December 31, 1995 | | $ 924,789 |
| **1996** | | |
| Net income (loss) | ($ 38,564) | |
| Net unrealized capital gains or losses | 138,330 | |
| Change in nonadmitted assets | 2,376 | |
| Change in surplus as regards policyholders for the year | | 102,142 |
| Surplus as regards policyholders, December 31, 1996 | | 1,026,931 |
| **1997** | | |
| Net income (loss) | $107,595 | |
| Net unrealized capital gains or losses | (37,990) | |
| Change in nonadmitted assets | 2,457 | |
| Change in surplus as regards policyholders for the year | | 72,062 |
| Surplus as regards policyholders, December 31, 1997 | | 1,098,993 |
| **1998** | | |
| Net income (loss) | ($146,138) | |
| Net unrealized capital gains or losses | 52,909 | |
| Change in nonadmitted assets | 1,102 | |
| Change in surplus as regards policyholders for the year | | (92,127) |
| Surplus as regards policyholders, December 31, 1998 | | 1,006,866 |
| **1999** | | |
| Net income (loss) | $10,595 | |
| Net unrealized capital gains or losses | 33,701 | |
| Change in nonadmitted assets | 234 | |
| Change in surplus as regards policyholders for the year | | 44,530 |
| Surplus as regards policyholders, December 31, 1999 | | 1,051,396 |

**2000**

| | | |
|---|---|---|
| Net income | ($140,626) | |
| Net unrealized capital gains or losses | (21,321) | |
| Change in nonadmitted assets | (2,183) | |
| Change in surplus as regards policyholders for the year | | (164,130) |
| Surplus as regards policyholders, December 31, 2000 | | 887,266 |

## Reconciliation of Policyholders' Surplus

A reconciliation of the policyholders' surplus as reported by the company in its filed annual statement and as determined by the examination is detailed in the following schedule:

| | | | |
|---|---|---|---|
| Policyholders' Surplus per December 31, 2000, Annual Statement | | | $ 887,266 |
| **Item** | **Increase** | **Decrease** | |
| Unearned Premium | $8,919 | | |
| Net Unpaid Losses | ____ | $10,875 | |
| Total | $8,919 | $10,875 | |
| Decrease to Surplus per Examination | | | 1,956 |
| Policyholders' Surplus per Examination | | | $ 885,310 |

| **Reclassification Account** | **Debit** | **Credit** |
|---|---|---|
| Agents' Balanaces or Uncollected Premium | | $8,919 |
| Premiums Received in Advance | $8,919 | _____ |
| Total | $8,919 | $8,919 |

## IV. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Bonds—It is recommended that the company obtain a proper custodial and safekeeping agreement with its bank to meet the standards required by the Examiners Handbook.

   Action—Compliance

## Current Examination Results

### Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

### Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employes which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted. However, the minutes disclosed instances where the board approved raises and directors who were also employees did not abstain from the vote. There was also a vote on the rate of pay for a part time employee who is the spouse of a director and again the interested director did not abstain from the vote. Only once in the five years under review did the minutes note an abstention and in that case the person who abstained was not identified. It is recommended that directors abstain on issues where a conflict of interest exists per s. 612.18 Wis. Stat. . It is also recommended that the minutes reflect the director(s) that abstain when a conflict of interest exists.

**Fidelity Bond and Other Insurance**

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

| Type of Coverage | Coverage Limits |
|---|---|
| Workers Compensation | \$ 500,000 each accident<br>\$ 500,000 policy limit<br>\$ 500,000 each employee |
| Directors and Officers Liability | \$1,000,000 \$5,000 deductible |
| Building | \$ 39,000 \$250 deductible<br>(80% co-insurance) |
| Commercial Liability | \$1,000,000 general and aggregate<br>\$ 500,000 personal and advertising<br>\$ 500,000 each occurrence<br>\$ 100,000 fire damage legal<br>\$ 5,000 medical expense |
| Storekeepers Burglary and Robbery | \$ 1,000 limit \$250 deductible |
| Umbrella Liability | \$ 500,000 each occurrence limit<br>\$ 500,000 personal and advertising<br>\$1,000,000 general and aggregate<br>\$ 10,000 retention each occurrence |
| Fidelity Bond Coverage | \$ 250,000 all employees |

**Underwriting**

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company does not have a formal inspection procedure for both new and renewal business. It is recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

**Claims Adjusting**

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

**Accounts and Records**

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2000.

The company is audited annually by an outside public accounting firm.

**EDP Environment**

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computer is limited to people authorized to use the computer.

Company personnel back up the computers weekly and monthly and the backed-up data is kept on site for weekly back up and off site for monthly back up.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs.

**Disaster Recovery Plan**

A disaster recovery plan identifies steps to be performed in case the company loses a key employe, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has developed a disaster recovery plan. The company's disaster recovery plan appears to be adequate.

**Invested Assets**

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employes of the company.

The company is in compliance with these requirements.

**Transition into the New Investment Rule**

On January 1, 1996, the investment rule for town mutuals was amended to allow town mutuals to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

| | | |
|---|---|---|
| 1. | Liabilities plus $300,000 | $1,266,484 |
| 2. | Liabilities plus 33% of gross premiums written | 1,356,888 |
| 3. | Liabilities plus 50% of net premiums written | 1,339,550 |
| 4. | Amount required (greater of 1, 2, or 3) | 1,356,888 |
| 5. | Amount of Type 1 investments as of 12/31/2000 | 1,078,106 |
| 6. | Excess or (deficiency) | ($ 278,782) |

The company does not have sufficient Type 1 investments. The company may not acquire new Type 2 investments until it has sufficient Type 1 investments.

## ASSETS

**Cash and Invested Cash** **$**366,001

The above asset is comprised of the following types of cash items:

| | |
|---|---|
| Cash in company's office | $ 150 |
| Cash deposited in banks-checking accounts | 658 |
| Cash deposited in banks at interest | 365,193 |
| Total | $366,001 |

Cash in the company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of fifteen deposits in six depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2000 totaled $16,080 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 2.50% to 6.65%. Accrued interest on cash deposits totaled $6,490 at year-end.

**Book Value of Bonds** **$**612,671

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2000. Bonds owned by the company are located in a fireproof safe or held by the custodial bank.

Bonds were physically inspected by the examiners or traced to the custodian statement. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2000 on bonds amounted to $36,714 and was traced to cash receipts records. Accrued interest of $11,120 at December 31, 2000, was checked and allowed as a nonledger asset.

**Stocks and Mutual Fund Investments** **$**662,723

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2000. Stocks owned by the company are located in a fireproof safe orheld by the custodian.

Stock certificates were physically examined by the examiners or traced to custodian statement. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. The company obtained permission to hold up to 30% of its assets in stocks and was in compliance with the permitted percentage.

Dividends received during 2000 on stocks and mutual funds amounted to $28,260 and were traced to cash receipts records. There were no accrued dividends as of December 31, 2000.

**Book Value of Real Estate** **$** 14,769

The above amount represents the company's investment in real estate as of December 31, 2000. The company's real estate holdings consisted of its home office building and land.

The required documents supporting the validity of this investment were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

**Agents' Balances or Uncollected Premiums** **$**169,581

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. This balance is made up of Premiums in Course of Collection and Premiums Booked but Deferred and Not Yet Due. The premiums booked but deferred portion of this account was adjusted by $8,919 due to an error in the company's accounting related to installment premiums on inforce policies received prior to their due dates. These premium receipts should have decreased the deferred premium asset rather than increasing the advance premium liability. A reclassification entry crediting the deferred premium asset and debiting advance premium was made to these accounts to reflect the actual balances as of 12/31/00. It is recommended that the company properly account for installment premiums received in advance in the future annual statements.

**Investment Income Due and Accrued** **$** 17,610

Interest due and accrued on the various assets of the company at December 31, 2000, consists of the following:

| | |
|---|---|
| Cash at Interest | $ 6,490 |
| Bonds | 11,120 |
| Total | $17,610 |

**Reinsurance Recoverable on Paid Losses** **$** 1,476

The above asset represents recoveries due to the company from reinsurance on losses, which were paid on or prior to December 31, 2000. A review of year-end accountings with the reinsurer verified the above asset.

**Equipment, Furniture, and Supplies** **$** 3,318

This asset consists of $3,318 of furniture owned by the company at December 31, 2000. In accordance with annual statement requirements, this amount has been deducted as an asset not admitted.

## LIABILITIES AND SURPLUS

**Net Unpaid Losses** **$** 261,000

This liability represents losses incurred on or prior to December 31, 2000, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule. Differences are reflected in the section of this report captioned "Reconciliation of Policyholders' Surplus."

| | Company Estimate | Examiners' Development | Difference |
|---|---|---|---|
| Incurred But Unpaid Losses | $478,339 | $528,169 | ($49,830) |
| Less: | | | |
| Reinsurance Recoverable on Unpaid Losses | 217,339 | 256,294 | (38,955) |
| Net Unpaid Losses | $261,000 | $271,875 | ($10,875) |

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2000. To the actual paid loss figures was added an estimated amount for those 2000 and prior losses remaining unpaid at the examination date.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

The examination also noted that the company routinely allows claims to remain open for a number of years without settlement while waiting for information from the claimant or for the insured to repair covered damages. This practice may be interpreted to be an unfair settlement policy by failure to initiate and conclude claim investigations in a reasonable period of time. It also increases the company's exposure to additional loss sustained on damaged and unrepaired property. It is recommended that the company adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

**Unpaid Loss Adjustment Expenses** **$** 1,459

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2000, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability was to estimate by the number of claims outstanding at year-end and then multiply times a factor (normally $25 to $50) depending on the type of claims..

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

**Commissions Payable** **$** 22,900

This amount was computed by using deferred premium total multiplied by 14% minus Wisconsin Reinsurance Company commission receivable. The examiners found this liability to be reasonably stated.

**Unearned Premiums** **$** 501,322

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology. The deferred premium was added to the unearned to develop the total unearned. During this examination an adjustment was made to the deferred premium which then affected the total unearned premium. An adjustment to reduce the unearned premium liability and increase surplus in the amount of $8,919 has been made as related to the overstatement of deferred premium described under the Agents' Balances or Uncollected Premiums heading above.

**Reinsurance Payable** **$** 97,215

This liability consists of amounts due to the company's reinsurer at December 31, 2000, relating to transactions which occurred on or prior to that date.

| | |
|---|---|
| Class A | $25,577 |
| Class C-1 | 17,600 |
| Class C-2 | 2,400 |
| Class D/E | 18,200 |
| First Surplus | 2,916 |
| 72 Hour Cat | 26,093 |

| | |
|---|---|
| Deferred | 4,429 |
| Total | $97,215 |

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

**Federal Income Taxes Payable** **$** 8,627

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2000.

The examiners reviewed the company's 2000 tax return and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

**Accrued Property Tax Payable** **$** 1,150

The examiners reviewed a copy of bill and subsequent payment to verify this liability.

**Fire Department Dues Payable** **$** 400

This liability represents the fire department dues payable at December 31, 2000. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

**Policy Buyout** **$** 38,192

This liability represents the amount due to a retired agent under an agreement the company made to purchase the renewal rights on policies previously sold by the agent. Supporting records and subsequent cash disbursements verified this item.

**Premiums received in Advance** **$** 16,381

This liability represents premiums received for policies with effective dates in the subsequent year. An examination of this account revealed that mid-term policies were included here and the deferred portions had not been reduced. A reclass entry was made reducing the deferred and advance premiums in the amount of $8,919.

## V. CONCLUSION

Bloomington Farmers Mutual Insurance Company is a town mutual insurer with an authorized territory of ten counties. The company has been in business over 127 years providing property and liability insurance to its policyholders.

Since the prior examination on December 31, 1995 the company's assets have increased 36.6% to $1,853,750. Liabilities have increased 123.5% to $966,484. Surplus has decreased 4.1% to $887,266. The company had losses three out of the last five years. This year's loss was ($140,626), the largest in the period under examination.

This examination resulted in five recommendations. The recommendations are listed in summary form on the following page.

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## VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 Conflict of Interest—It is recommended that directors abstain on issues where a conflict of interest exists per Insurance Commissioner directive dated 03/09/89.

2. Page 17 Conflict of Interest—It is also recommended that the minutes reflect the director(s) that abstain when a conflict of interest exists

3. Page 18 Underwriting—It is recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

5. Page 23 Agents' Balances or Uncollected Premiums—It is recommended that the company properly account for installment premiums received in advance in the future annual statements.

4. Page 24 Net Unpaid Losses—It is recommended that the company adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

## VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Jean Suchomel of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

David A. Grinnell.
Examiner-in-Charge